



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 24 October 2012

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
27th Meeting 2012, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Marco Biagi (Edinburgh Central) (SNP)

*Chic Brodie (South Scotland) (SNP)

*Rhoda Grant (Highlands and Islands) (Lab)

*Patrick Harvie (Glasgow) (Green)

*Mike MacKenzie (Highlands and Islands) (SNP)

John Park (Mid Scotland and Fife) (Lab)

*David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dr Dan Barlow (WWF Scotland)

Colin Borland (Federation of Small Businesses)

Stephen Boyd (Scottish Trades Union Congress)

John Downie (Scottish Council of Voluntary Organisations)

Norman Kerr (Energy Action Scotland)

David Lonsdale (Confederation of British Industry Scotland)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 24 October 2012

[The Convener *opened the meeting in private at 08:04*]

10:00

Meeting continued in public.

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning and welcome to this meeting of the Economy, Energy and Tourism Committee. I remind all members, witnesses and people in the public gallery to turn off their mobile phones and other electronic devices.

Under agenda item 2, does the committee agree to take item 6 in private?

Members *indicated agreement.*

Draft Budget Scrutiny 2013-14

10:00

The Convener: Under item 3, we continue our scrutiny of the draft 2013-14 budget, for which I welcome back to the committee our budget adviser, Jo Armstrong.

I welcome our first panel of witnesses: David Lonsdale, assistant director at the Confederation of British Industry Scotland; Stephen Boyd, assistant secretary at the Scottish Trades Union Congress; Colin Borland, head of external affairs at the Federation of Small Businesses; and John Downie, director of public affairs at the Scottish Council for Voluntary Organisations. I welcome you all, gentlemen, and thank you for coming along.

Before we ask questions, if you would like to take the opportunity to give an introduction for a few moments, the committee would be happy to hear from you.

David Lonsdale (Confederation of British Industry Scotland): Thank you for the kind introduction and the invitation to give evidence. We consulted our members following the budget's publication and we have made written submissions to this committee and the Infrastructure and Capital Investment Committee.

The headline message is that we recognise that this is the second year of a three-year spending review, so the budget is not necessarily as fascinating as last year's budget was or a pre-election budget would be. The budget has a number of positives, but there are one or two missed opportunities and we are less keen on one or two things, such as the increase in empty property rates, which will come into effect next spring. I would be happy to expand on any of that in the discussion.

Stephen Boyd (Scottish Trades Union Congress): Good morning and thanks for the invitation to give evidence. I am interested that I am sitting on the centre right of this august panel—that is an unusual position for me.

I do not have much to add to our submission. I stress that many of the initial responses to the budget's presentation centred on its role in bringing Scotland out of its current prolonged economic slump. The STUC emphasises that everybody should be realistic about what the Scottish Government can achieve on that at this moment.

Colin Borland (Federation of Small Businesses): Good morning, convener and everyone. As we outline in our submission, what is more relevant to success or failure than the raw

headline numbers on how much departments will spend is how money is spent, whether that is on the measures that have been outlined to encourage small businesses to create more jobs for young people, on the initiative to bring more empty properties back into commercial use or on capital spending, on which questions have been asked.

John Downie (Scottish Council of Voluntary Organisations): Thank you for the invitation to give evidence, convener. I echo Colin Borland's point—what matters is what we spend the budget on and what we want to achieve for Scotland. When I gave evidence to the Health and Sport Committee yesterday, I made the point that, although we are spending £11 billion on health, we still—after 13 years of devolution—have the worst health outcomes in Europe. What matters is not the amount that we spend but what we spend money on.

It could be argued that economic growth and our current economic model have failed us. We have an economic model that does not look at social and environmental outcomes as much as it does at sustainable economic growth outcomes.

We need a rethink on the economy, and the budget plays a key part in that. We need to decide what we want to achieve and we need to build up local economies and resilient communities that can better deal with what we have faced and what we will probably face as a result of welfare reform.

The Convener: Thank you all very much. I am sure that we will pursue a number of those issues in more detail through our questions.

Given that we have a reasonably large panel this morning and that past experience suggests that many of you will want to have your say, it would be helpful if members could keep their questions short and to the point and witnesses could keep their answers as short as possible. Witnesses should not feel that they must answer every question. Members should direct their questions to particular witnesses, which will help us to get through the number of issues that we want to tackle in the time available.

With that admonition, I invite Rhoda Grant to ask the first question.

Rhoda Grant (Highlands and Islands) (Lab): Is the Scottish Government's budget a budget for jobs and growth? What more could be done in the budget to grow the economy and create jobs?

Stephen Boyd: I will kick off. As I said in my opening comments, we must be realistic about what the Scottish Government can achieve at this time. Over the past four years, we have seen unemployment double, and underemployment has risen to a level at which more than 240,000 people

in Scotland identify themselves as being underemployed, which means that they cannot get enough hours in their job to allow them to make ends meet.

On the train to Edinburgh, I read a recent paper from Capital Economics, which estimates that the size of the output gap at UK level is about 13 per cent. We are not close—at either the UK or the Scottish level—to achieving pre-recession levels of output, and we are nowhere near to attaining those levels in relation to manufacturing and exports.

There is always a debate to be had about whether certain measures are appropriate. When I appeared before the committee last year, we had a long discussion about the small business bonus scheme, and we highlight that scheme again in our submission. We believe that that money could be used far more effectively to promote growth and jobs. However, we must recognise that, although that £150 million spend is not an insubstantial amount, it is insufficient to bring Scotland out of the prolonged economic slump. We must be clear about what is possible.

Colin Borland: In our experience, everything about the economy and economic growth seems to come back to the question of jobs and employment. Unemployment, and the fear thereof, has harmed consumer confidence in previous years and we are now seeing that impact on business confidence to the extent that investment plans are being shelved.

The budget's provisions to support small businesses to create more jobs must be welcomed. Recent figures in a report that we published showed that nine out of 10 people who leave unemployment to take private sector employment do so either by becoming self-employed or by getting a job in a small or medium-sized enterprise. That shows that small businesses shorten the dole queues, so we must focus on and listen to them, including about the recruitment barriers that they face.

We are doing some interesting work on that, but the report is not quite ready to be published. I do not want to pre-empt its findings, but they are interesting and they challenge some of the preconceptions about the traditional barriers. If any extra money emerges, any scheme that we design must support job creation at that level—it must be tailored to small businesses.

On the vexed issue of the small business bonus scheme, which seems to come up with monotonous regularity when we talk to the STUC—

Stephen Boyd: Do not talk to the STUC about it, then. [*Laughter.*]

Colin Borland: First of all—

The Convener: Please be brief, Mr Borland.

Colin Borland: To allow people to hang on to a little bit more of their own money is an interesting definition of a cost or a spend. When someone looks at their pay packet and they see the tax at 20 or 40 per cent, they do not think, “There’s that nice Mr Osborne giving away 80 cent”—or 60 per cent—“to me.”

In essence, we have a tax threshold. Either we believe in progressive taxation or we do not. We know that the small business bonus scheme has helped one business in eight to remain in existence during the difficult economic period. If there are 80,000-odd recipients of the bonus, that equates to 10,000 businesses. If they employ one full-time and one part-time member of staff each, that is an awful lot of jobs that have been safeguarded in the Scottish economy. If we are looking at where employment will come from, why on earth would we impose a super-tax on the very businesses that will create jobs?

David Lonsdale: Stephen Boyd makes a good point. There is a wider panoply of public policy interventions that will affect the economy’s growth rate and the success or otherwise of businesses in generating growth. It is not just about the budget, but in our submission we outline a number of ways in which we believe that the budget can help, particularly in the longer term. It is unrealistic to expect great things from a budget immediately, so in our submission we talk about setting a course or direction on infrastructure spending as a proportion of overall devolved budget spend, and on skills and export support.

We also highlight a number of other areas that we believe could be improved to free up money to spend more on infrastructure and skills and to avoid some of the tax increases that we have seen recently. I agree with Colin Borland’s point about keeping taxes down, which is one reason why we were against the retail levy that came into effect earlier this year, and we do not support the empty premises tax hike that will come into effect next year.

John Downie: Given the headline figures—£9 million on enterprise and £263 million on health—it does not look particularly like a budget for growth and enterprise. I agree in general with what Colin Borland and David Lonsdale said; the key is how we create more jobs in the economy. All our members, be they social enterprises, large charities or social organisations, say that the issue is about people. Our members’ growth is dependent on their getting the right people.

Last year, through the community jobs Scotland initiative, we created more than 1,800 jobs and consorted with 500 third-sector organisations. This

year, we are consorting with 1,000. Frankly, we believe that the third sector could create more jobs over the next four years—around 16,000—if we had the investment. Regarding the private sector, we are going to have a jobless recovery, so we need to think about what the third sector can do to grow jobs in the economy and what we can do in local economies to retain finance in small businesses.

That brings in the bigger issue that the Government spends £9 billion a year on procurement. To be frank, the proposed procurement reform bill is all about process and is not about spending to deliver better social, environmental and local economic outcomes. If we are going to grow the economy, we need to think about where we should focus Government spending. There is a range of issues within that.

However, all our members are saying that it is about people. We can create jobs if we are given the opportunity.

Rhoda Grant: I wonder what your observations are on some interesting evidence that we received from our previous panel on the draft budget. As you know, the Government is moving revenue spend into capital spend. The evidence suggested that that might be counterproductive for jobs because moving money from revenue cuts public sector jobs and does not create the equivalent amount of jobs in the private sector, given the amounts of money that we are talking about. Does that resonate with you? Do we need more capital funding or do we have enough? Should we be doing more about infrastructure and issues such as broadband, transport and the like?

David Lonsdale: In our evidence to the committee and our submissions to and meetings with the finance secretary ahead of the spending review, we articulated the point that we supported the switch from revenue to capital. We believe that there should be a step change in the proportion of the devolved budget that is spent on infrastructure, skills and so on. That makes for difficult political choices for politicians and the Administration of the day, but we believe that that is a better course. In the long term, it also benefits the economy and improves our economic potential by moving forward to invest in transport infrastructure, broadband and other forms of communications infrastructure. We believe that the Government is doing a positive thing.

Rhoda Grant: But does it create the equivalent number of jobs? The argument is that, as unemployment rises, economic growth stalls, so if we put more people out of work, it becomes a self-perpetuating situation.

10:15

David Lonsdale: There is a balance to be struck between revenue and capital and the social and other programmes on which the Administration of the day wants to spend money. However, we believe that investing in infrastructure is a good way of improving the long-term potential of the economy. The CBI has produced research that shows that the economic multipliers and effects of such investment in getting a bang for our buck are high. I will be happy to provide that research to the committee later. That is our position.

Stephen Boyd: I hope to return later to the points that Colin Borland made about the small business bonus scheme.

Last year, the Scottish Trades Union Congress broadly supported the shift from revenue to capital. Following on from the points that David Lonsdale made, I note that we understood where the economy was at that time and believed that, if we could boost capital spending, that would be likely to be beneficial over the longer term. However, we are much less supportive of that this year. I do not think that anyone has the necessary information to make a proper judgment on whether the net jobs impact of the moves over the past couple of years has been beneficial to the Scottish economy.

An issue that is rarely discussed in public policy discourse in Scotland is that, with a small and open economy, we are prone to leakage from it through infrastructure investment. We do not know whether that investment is going to Scottish firms that invest in Scotland. Over the past month, I have tried to compare public sector job losses during the recession in Scotland with those in other parts of the United Kingdom. That is a simple bit of information, but we cannot get directly comparable figures for Scotland and the other regions and nations of the UK. That is a major concern. We do not know whether Scotland has lost more public sector jobs than other areas of the UK, so we are simply not able to answer the question.

Overall, if we are shifting from revenue to capital and that is introducing extra pressure on public sector budgets and putting extra pressure on employment, all that we are doing is shifting demand around the economy at a time when the major problem is a deficiency of aggregate demand. I would therefore argue that that is unlikely to be hugely beneficial to the economy.

Colin Borland: Stephen Boyd has made the good point that things depend on how the capital expenditure is spent. You could go and ask my members at the top of Leith Walk or the west end of Edinburgh who have had years of tram works

whether they believe that major capital investment projects have been good for their businesses.

We need to answer the question: what is the object of the exercise? I get the point that investing significantly in our infrastructure will be good for business if we can get to where we want to be more quickly and do business more efficiently. Obviously, that is a long-term gain, but if the name of the game is short-term economic stimulus, we must ensure that we get as big a bang for our buck as possible from that money, as Stephen Boyd said, and that means looking carefully at how we procure and spend money on those projects.

The Convener: Chic Brodie wants to come in on procurement and the third sector.

Chic Brodie (South Scotland) (SNP): First, let me be rather naughty. We are going into the dark corners of Government expenditure. How much do your organisations receive from the public purse?

Colin Borland: Nothing.

John Downie: Just less than £1 million in core funding. We deliver the community jobs Scotland initiative, which is a £10 million project, and we take a management fee, but 99 per cent of that money goes out to organisations in the third sector. We have certain contracts that we deliver.

Chic Brodie: I am sorry. I meant how much you receive directly or indirectly.

David Lonsdale: We are a membership organisation. From time to time, organisations that are funded wholly or in part by the taxpayer may wish to join the CBI in order to get some value from that.

Chic Brodie: So you do not get any contributions from Scottish Enterprise any more.

David Lonsdale: I understand that Scottish Enterprise is a member of the CBI. It will decide whether it is getting value for money from that. However, the overwhelming majority of our members are private sector companies. As I said, from time to time, public bodies or bodies that you or I might think of as public bodies but which are slightly autonomous and are in receipt of taxpayers' money might wish to join us for a particular reason. Occasionally, public bodies and others wish to sponsor events that we do in order to promulgate messages or Government initiatives, for example, but the vast majority of our income comes from private sector companies. That is who we represent, at the end of the day.

Chic Brodie: Okay. I want to—

The Convener: Hold on—Stephen Boyd wants to say something.

Chic Brodie: I beg your pardon, Stephen.

Stephen Boyd: Our core funding, like that of David Lonsdale's organisation, comes from affiliated trade unions or members, but we receive funding from the Scottish Government to deliver three projects. The first is Scottish union learning, for which we receive about £1 million a year, although I am not directly involved in that project and I would have to get back to you with the exact figure. The second is our one workplace equal rights project, which receives a much lower level of funding, although I am not sure exactly what it is. The third is the close the gap project, which is aimed at reducing the gender pay gap. We receive funding to house that project, but I am not sure how it all works out.

Chic Brodie: Thank you. My next question is on the proposed public procurement reform bill. The CBI's written submission states that

"the Budget was a missed opportunity to signal a fresh direction on public service reform, through contracting-out the delivery of a far wider range of public services to the private and third sectors".

I wonder whether each of you would care to comment on that. I do not want to get into round 2 on the small business bonus scheme, although I suspect that we are about to. Where did we miss the opportunity? Where would you have targeted spend in that area?

David Lonsdale: At the risk of causing another fracture in the relationship with the STUC, I suggest that the Scottish Government could do a great deal more on outsourcing. We gave evidence not only to the independent budget review, but to the Christie commission when it considered the matter, and I am happy to provide the details of those submissions to the committee afterwards, if it would like them. We think that there is a missed opportunity on that front and that the Scottish Government could go a lot further in a number of areas to get better value for money for the public purse.

I see that Jo Armstrong is here. The other day, I read in the Centre for Public Policy for Regions report on the Scottish Government's budget that we are a third of the way through the cuts in resource spending. It seems to me that there will be a great opportunity over the next few years to make some of those changes. They will not necessarily generate substantial sums of money immediately, but it will put public services on a better financial footing in the longer term and will, I hope, get those services fit for purpose going forward. The leaner time that we are in for public spending will be with us for many years to come.

Chic Brodie: Are you prepared to say what areas of public service should be reformed?

David Lonsdale: We did that in our submissions to the independent budget review

and the Christie commission. We have also done that in our evidence to John Swinney, the finance secretary. Some of those areas are to do with existing law and some are to do with ministerial decisions to restrict the right of the private or third sectors to deliver services. For example, a few years ago, the Parliament supported a bill to restrict companies' coming in to deliver general practitioner services, although many GP practices are already privately provided. I am also thinking of hospital catering, hospital cleaning and roads management and maintenance—the Scottish Government has a good record on that, with four contracts that it lets out, but at a local level the 32 councils are much more reticent about contracting out that work to the private or third sector. There are also the contact centres and back-office payroll functions. I know that such phrases might upset Stephen Boyd, as he and I have debated some of these things in the past.

Stephen Boyd: I am not usually upset.

David Lonsdale: We think that there could be reform in a range of public services, and I am happy to provide that information to the committee after the meeting. To us, that is the key area, because it would free up money to spend on other things, as well as protect the services. It would free up money to spend on infrastructure or skills and would possibly enable us to avoid some of the tax rises that we have seen.

The Convener: Are we going back to the original question, which was about the proposed public procurement bill?

Chic Brodie: Yes.

John Downie: Before the draft procurement bill was announced, we had a round-table session in this committee room with Alex Neil, who was then the minister responsible. He laid out his ambitions for the bill, which included building resilient communities and local economies, and redirecting spend. I think that we all agreed with that vision, so when we saw a process-orientated bill, we were a bit disappointed.

We have some issues with the bill. What outcomes are we trying to achieve with it? At present, procurement is not delivering the outcomes that we want. We are not using community benefit clauses or considering social impact as effectively as we could. Europe has a much wider definition of social impact, which is about protecting jobs and investing in local communities. There are ways to do that, and the answer is that we probably do not need a bill; we need better culture and practice in how procurement is delivered.

The best procurement bill in the world will not make a difference if it does not change things at a commissioning level. The strategic point is that we

need to think about how we use procurement—within the law—to benefit Scotland. In drafting our response to the bill consultation, we looked at other countries to see where they are using procurement more effectively than we are.

The second problem with procurement is that we should not be procuring the new Forth road bridge and buying chairs and computers in the same way as we buy people services. We need a classic procurement approach to buying the former, and a different approach when we are buying people services such as social care, because those are totally different. Part of the problem at present is that we are trying to do two things.

We are probably the only country in the world that does not have a law that deals with procurement below thresholds to make it easier for public sector agencies to do something about that. That is another issue that we will touch on.

There is a great opportunity in that regard. Whether or not we need a bill, we have one, and we need to take it forward and make it work for local businesses and communities to retain money and jobs. We can do that if we think about it in the right way.

Chic Brodie: How would you change the culture?

John Downie: That is the biggest issue that comes up in discussions about public services reform. I do not think that defining general duties on local authorities in the bill will make a difference to a lot of people.

As I said to the Health and Sport Committee yesterday, a lot of the change agenda for public services and reform, and the change in dynamic, is about empowering people and communities. Organisations that commission services have to think about what they want to achieve and how they can empower people to make decisions.

It is important to be able to take a risk. Sometimes we might go wrong, but we need to think about that. A culture change must be involved; we could spend the whole day talking about the different theories of how we achieve culture change, but we need to drive something better through the system.

At present, there is legislation in place that officials are not using. A simple example is that if an organisation is procuring children's services, it should be getting parents, providers and other people together to think about what it wants to achieve and what the best outcomes would be. Further along the line, those private sector providers will be tendering for the contract, which is perfectly fine. If one talks to officials at a local level, they say that they cannot do that, but there

are two paragraphs in the social care legislation that say that they can. They are not using what they have at present to deliver a better service, but simply commissioning and designing services in isolation.

We need to think about putting users at the heart of public services reform and procurement. That is how we will change the dynamic and the culture.

Colin Borland: Chic Brodie and John Downie have put their finger on the nub of the issue. The question is not what we agree in our high-level strategies, but how we translate that into sensible and smart procurement approaches at a local purchasing manager level.

As John Downie correctly identified, there is not a simple answer. We will have to debate the issues, and it will take an awful lot of work. However, I understand why, if I am told by my boss to take 10 per cent out of a budget column, it would be attractive to me to aggregate things together and ship them off to the lowest bidder, regardless of the wider economic impact of that decision five or 10 years down the line. The money is not coming out of my budget, so I am less interested, but it is still a bill that the Government and we as taxpayers will have to pick up, and the issue needs to be tackled if the procurement reform bill is to be successful.

Although we have made progress on a number of process issues, particularly with regard to the interaction of small businesses, we need to ameliorate the overall agenda of saving money quickly—and not just at the highest level.

10:30

Stephen Boyd: For many years now, we have been pressing the Scottish Government to take a more creative approach to procurement. Indeed, we were the only national organisation to make submissions to the Parliament in 2005-06 with regard to the transposition of the previous European directive. Interestingly, there is a new European directive that might provide more scope for introducing these kinds of measures into public procurement, so in that respect the bill's timing is not entirely helpful.

We have never pressed the Scottish Government to introduce legislation, so we find ourselves in quite a funny position. Although we think that the bill is weak and not hugely helpful, we cannot think of many legislative ways of improving on it. Most of our suggestions would be non-legislative. For instance, about four years ago, the Scottish Government produced excellent guidance on community benefit that set out what those who want to introduce such benefit into public procurement contracts need to think about

at an early stage. It has been insufficiently promoted, although I am assured that the situation has changed and that 300 procurement professionals have now been trained in it. That is the sort of progress that we want. I also point out that, at the end of our submission, we highlight the disparity between the Government's presentation of this bill and the contents of the consultation on community benefits, and there seems to be a lack of joined-up thinking in that regard.

A lot has been said about culture. Culture is intimately related to resources and if we want to do more, better and more creative things in this area, they will have to be properly resourced. Indeed, one of the central conclusions of the McClelland report, which I think was published in 2006, was that we have to put more resources into procurement, but I do not think that that has happened.

John Downie mentioned Europe and I believe that his submission refers to how things are done differently in France. The fact is that we need to distinguish between public procurement and other economic development measures; in France, they have stipulated that 25 per cent of offshore renewables content must be local and have justified such a move on climate change grounds. That is the kind of clever thing that the French do. They stick rigidly to the letter of European Union law with regard to public procurement processes but are more creative in how they apply it. Back in 2004, Gordon Brown invited Alan Wood, ex-chief executive of Rolls-Royce, to carry out a major bit of work that was essentially aimed at finding out what other countries were doing to cheat EU procurement law. Despite studying other nations intimately and looking at how they went about things, he could not find anything at all and concluded that, actually, they stick to the letter of the law but are just better at doing these things than we are. Again, the whole civil service culture is different. There are more resources in the system and it would be tremendously difficult to replicate any of that in the short term.

Chic Brodie: Does the budget do enough to stimulate these things? After all, we have only 36 business start-ups per 100,000 population. Does the budget address the creation and sustainability of small business? If not, how should it?

Colin Borland: As far as start-up rates are concerned, figures from the Global Entrepreneurship Monitor show that we seem to have turned the corner and are getting better—or, at least, slightly less bad—at this. A lot of resources are going into encouraging people to start up businesses—indeed, it has been one of the business gateway's key responsibilities—and provided that it continues to be funded as it was

under the previous regime we do not have an issue with it.

The sustainability question is more interesting, because for many people survival is number 1 priority. Of course, there are questions about how we reduce costs at a time when energy bills and other costs are increasing. I do not want to reopen this argument, but the small business bonus scheme has been incredibly important—and if you talk to businesses about it that is exactly what they will tell you.

The other question is how we can support businesses at the key stages in their life cycle. Beyond start-up, there are probably two: when you move out of your back bedroom or garage into your first premises; and when you take on your first member of staff. There are provisions in the budget that concern ways of making it easier to do both. Under what I think has been called the fresh start initiative, businesses can get a reduction in business rates if they move into premises that have been lying empty. That makes perfect sense. We will need to examine the details to ensure that it does not penalise people who want to expand and also guards against carousel movements, but I am sure that any such issues can be overcome.

Another initiative involves European structural fund match funding to support small businesses to take on young unemployed people. We are going to work closely with the Minister for Youth Employment on that issue. We share some of the thinking about the barriers to small businesses taking on young people and have suggested ways in which they can be overcome.

The Convener: Does anyone want to come in briefly?

Stephen Boyd: Briefly? Oh dear. I will do my best.

I am not sure that the budget includes many of those measures, but I question whether it should. Should we be focused on increasing the number of start-ups? I see no evidence that increasing the number of start-ups will contribute to what the Scottish Government tells us is its fundamental purpose, which is encouraging economic growth.

Certainly, some small businesses will contribute to innovation and growth, but many will not and those that do are atypical. Most small businesses underperform and are undersized. They confuse investors and, when they go down, as many of them do, they take other small businesses with them. I have seen that at first hand. Chic Brodie asked me last year whether I had ever worked with a small business. Indeed, I have, and I have seen the devastating effect on other small businesses of a small business going down on the back of a business model that was never

sustainable. Therefore, I question whether that should even be a purpose of the Government.

On the small business bonus scheme, I could go on for the rest of this session—

The Convener: Please do not.

Stephen Boyd: I will simply say that, this time last year, after we spoke to the committee, we accessed the best data set on small businesses in the United Kingdom—the business population figures of the Department for Business, Innovation and Skills—and examined the performance of small businesses in Scotland with zero to nine employees in comparison with those in other nations and regions of the UK. We looked at the Scottish Government's claims when it introduced the small business bonus scheme, which were pretty ambitious. We list them in our paper. It was going to stimulate growth, employment, innovation and so on. However, looking at those figures, we can see no evidence of that, because, since the scheme was introduced, Scottish small businesses have underperformed in terms of the number of businesses, turnover and the number of employees. I emphasise that that dataset does not tell the whole story. We were hampered by the Scottish Government's refusal to collect decent information on the scheme. Frankly, no one really knows how well the scheme is performing. The Scottish Government could do more to deal with that problem.

What we do not need is the FSB publishing a survey and telling us that it has evidence for its view when, manifestly, there is no such evidence. In Parliament, Jim Mather described the FSB as the principal architect of the scheme and it then went away and surveyed its own members—with a less than impressive response rate—and tried to draw conclusions about small business across the economy on the back of that survey. That is just not serious, and the FSB must recognise that.

To continue to respond to our serious bit of work with assertion is not really good enough.

The Convener: I think that we get the point.

Stephen Boyd: The point is that we have never had a response to the paper from any of the scheme's supporters, and it is about time that we did.

The Convener: It is only fair to let Colin Borland in, briefly. I think that this will be the last word on the small business scheme today.

Colin Borland: Although I argue that our members know slightly more about what is happening with small businesses than people sitting looking at spreadsheets, you do not need to take our word for it. One reliable set of data is the Scottish corporate sector statistics, which are comparable over time. In Scotland, between 2008,

when the financial crisis began, and 2011, the number of small businesses decreased by 1.4 per cent. Comparable figures across the UK show that the number of small businesses has reduced by 4.5 per cent. More small businesses have survived in those years in Scotland than south of the border. We need to be careful about how we use that figure, but it is fairly indicative. On the basis of the STUC report, which I have read and responded to—

Stephen Boyd: You have not.

Colin Borland: I have. I certainly responded publicly.

Stephen Boyd: The response—

Chic Brodie: I asked how we encourage start-ups. Although this discussion might be interesting, it would be good to get an answer to the question. Does the budget do enough to stimulate start-ups?

David Lonsdale: The spending is focused on a huge array of areas. Colin Borland touched on the support through the business gateway. There is a lot of emphasis on small firms, but we are looking for growth businesses that will generate substantial returns for the economy and substantial numbers of jobs. There are a lot of publicly funded schemes available through Scottish Enterprise, which have been mentioned, and in other areas of the budget. There is more money for tourism, which is a positive. As I understand it, most businesses in the tourism sector, including our members, are small firms.

Interestingly, the empty property rates rise applies to small businesses. We had a meeting with MSPs yesterday to which I brought some of our members from the small business sector. They talked about how much the measure will hold them back in the coming years if it comes into effect next spring.

The Convener: I want to move on and ask a related question about business rates generally. We should try to leave aside the discussion on the small business bonus scheme, because we will probably not get a meeting of minds on that. At a time when expected economic growth is very low or close to zero, the budget forecasts a rise in receipts from non-domestic rates in the next two years of 5 per cent in real terms. What impact will those real-terms increases in non-domestic rates have on business decisions and the wider rate of economic growth?

David Lonsdale: Over the years, we have been supportive of the Scottish Government on key issues such as poundage rate parity with England. We also like the small firms rates relief scheme, to give it a different name, and the deferrals scheme that the Cabinet Secretary for Finance, Employment and Sustainable Growth has

introduced. We support business improvement districts and the business rates incentivisation scheme. So there is a lot of good news. I have touched on a couple of areas in which we think the Scottish Government is heading in the wrong direction: the retail levy and empty property rates relief.

The forecasts for revenues over the next few years look pretty optimistic given what we know about the state of the economy and about future economic forecasts. Stephen Boyd touched on that issue early on in his written submission. We need to bear it in mind that, according to the Scottish Retail Consortium's evidence to the committee, almost 30 per cent of rates revenues come from the retail sector, but we have just hit that sector with a levy of £95 million over the next three years. In addition, the Scottish Government is pressing ahead with enterprise areas, which have a rates discount element. Therefore, I agree that it could be challenging to meet the forecasts in the next few years.

The key point that we have made consistently to Government is that we need to retain poundage rates parity. We did not have that in the early years of devolution, and it cost Scottish businesses dearly.

Stephen Boyd: The forecasts look ambitious. At present, UK corporations are sitting on about £1 trillion of cash that they see no reason to invest because there is no demand for goods and services. As I have said, there are conflicting views on the size of the output gap but, undoubtedly, there is a gap. It is difficult to see where the growth in business activity will come from that would lead to a concomitant rise in rates revenue.

Colin Borland: I am obviously delighted to hear the STUC acknowledge that business rates are not an absolute certainty and that the take will go up and down depending on the economic circumstances.

The Convener: Can we just park the point scoring for the time being?

Colin Borland: I will say quickly that it is important to recognise that about a quarter of our members do not pay any business rates because they do not have premises and another quarter do not pay any because of the small business bonus scheme. Of the 50 per cent of our members who pay business rates, the rates remain a significant cost. When they go up in the mechanical way that happens currently, because they are linked to inflation increases—last year's increase was particularly large, although this year's increase is smaller—that causes businesses difficulty. That is why we welcome, and will contribute to, the review of the operation of non-domestic rates. We very

much look forward to the outcome of that review before the next scheduled revaluation.

10:45

The Convener: Okay, let us move on.

Patrick Harvie (Glasgow) (Green): Good morning. First, I want just to pick up on issues that Rhoda Grant raised about the revenue-to-capital shift. Sometimes that is talked about in terms of stimulus—one or two witnesses today have referred to it as a short-term stimulus—but it seems to me to be fairly clear that a fixed budget cannot provide what people would classically mean by stimulus. Also, in many instances the Government is not looking to raise significant revenue; for example, council tax has been frozen again.

Given that some people have made the case that the problem with the recovery is due to consumer demand, is there an argument for looking again at the balance between spending money on capital projects, some of which are approved before they are even costed—for example, the Aberdeen western peripheral route—and spending money on revenue budgets, including pay policy? Perhaps Stephen Boyd could comment on the argument that has been put by PCS and other unions—that the emphasis should be on trying to provide a reasonable pay increase so that at least pay does not continue to be eroded in real terms, which would give people money to spend in the economy.

Stephen Boyd: I agree with your analysis and do not have much to add to it, really. In particular, money could be put into the pockets of the lower paid—we argue that the Scottish Government could have done more on that—so that marginal propensity to consume would be higher. The statistics show that the reason why the UK economy as a whole has been underperforming is a lack of domestic consumption. Yes, the euro zone and so on have had an impact, but the lack of domestic consumption, for all the various factors that we list in our submission and have already discussed this morning, is what is really holding back growth. There is a fair case to argue that if we were able to put money in the hands of lower-paid public sector workers, in the short term that would have a greater stimulus effect than would shifting revenue to capital.

Patrick Harvie has reminded me of a point that I did not make earlier, which Mr Biagi and Mr Robertson will remember from our discussion with the Equal Opportunities Committee a couple of weeks ago. A revenue-to-capital shift also has serious gender implications, because it is likely to put much more pressure on women's employment. Although the situation has turned in the past two to

three months, we have seen women's employment deteriorate very significantly over the past year, and such a shift is likely, if anything, to boost male employment. I just raise that as something that people should be aware of.

Patrick Harvie: Both the STUC's and the SCVO's written submissions go on from those issues to talk about whether gross domestic product economic growth is actually the right priority. Within the context of the national performance framework, over the years we have seen declines in the likelihood of achieving, for example, the solidarity targets. However, the figures now suddenly seem to suggest that that is going in the opposite direction and is improving, but nobody seems to know why. Could either of you expand on your comments about alternative approaches that might be natural developments of the national performance framework, but which represent a broader set of priorities that we should be achieving, if we want to define what economic recovery means rather than just growth for growth's sake?

John Downie: Our overall point on that was really that having sustainable economic growth as the sole measure of progress is not right. For example, the Oxfam humankind index, which Parliament has debated, suggests that people's priorities and what they want for their communities, their lives and their children are much different from what we see in the Government's economic framework. I suppose that that is why our view is that we need really to rethink the economy and to give much more consideration to social impacts and the need to address social inequality. We talk a lot about environmental impact and assessment, but that is not taken into consideration in terms of economic growth.

Those things benefit the Scottish economy in a whole range of different ways—from our tourism industry to, as Stephen Boyd mentioned, the lower paid. We have had a long discussion with the STUC and others about ensuring the living wage through procurement. That would put money into the hands of the lower paid and would stimulate spend in local businesses.

For us, it is about balance. Poverty and inequality in Scotland have got worse in the past 13 years, but the national performance framework and the draft budget do nothing to address those issues. We need to look at a much more rounded picture in terms of what we are trying to achieve.

What if we were to take a people-based approach—a bottom-up approach—to the economy? The top-down approach has patently failed. I recognise that there needs to be a balance. We need to think differently about this—it is about having more empowered citizens. We do

not want to be driving an economy that does not have empowered citizens because it is not going to be consumer driven and demand driven for the next few years, given that household budgets are severely constrained.

Last week, the UK Government was trumpeting the reduction in unemployment south of the border. However, with more people who are self-employed, people from the public sector being reclassified as private sector workers and lots of people disappearing from the benefits list, the reduction is—to be frank—meaningless. Unemployment is going up. That is still the trend.

How do we change the dynamic? It is about how we create jobs in local businesses and in the local third sector. It is about that preventative agenda as well, in terms of public services reform. It is a complex picture. This is about changing what we think we want from the economy; we need a better and bigger debate on that.

Patrick Harvie: You mentioned environmental aspects. Do witnesses think that it is remotely possible to say whether the draft budget will achieve what is necessary in terms of climate change emissions, given that we do not yet know what the policies are going to be?

The Government is legally required to report on its policies to make up the lost ground on climate change emissions. The first annual target was missed and we have been told that that report will probably not be out until the end of the year. Is it remotely plausible to look at the budget and say whether it will achieve that objective—whether it is going to fund policies that have not yet been defined?

John Downie: In a sense, you could say that the weather has a bigger impact on those climate change targets than the budget does. We had a fairly severe winter, which probably affected some of the targets. If we have a milder winter, that affects the targets too. It is difficult to say, but my gut reaction—

Patrick Harvie: Knowing that policies are required and that we do not know what they are yet, how can we tell whether they are being funded?

John Downie: I happen to agree.

Stephen Boyd: There is a fundamental tension between economic growth and sustainability that is being wrestled with—not just in Scotland, but far beyond our borders. It was interesting that the cabinet secretary chose to present the budget as the “relentless pursuit of economic growth”—I think that he used those words—which is difficult to reconcile with the national performance framework. Some other things that are happening at the moment are also difficult to reconcile with it.

For instance, the forthcoming better regulation bill would introduce a duty on environmental regulators to promote economic growth. That would introduce into their core activity a conflict of interests that would be almost impossible to manage.

Again, not just in Scotland but in the rest of the UK and beyond, we are not really close to having a serious discussion about the degree of structural change that is required in the economy to achieve the very stretching—and, we argue, necessary—targets. We signed three years ago with the First Minister a communiqué on climate change. As part of that, we are encouraging the Scottish Government to do some pretty serious research on the sectoral and geographical implications of the kind of shift that would be needed to achieve those targets. That has not yet been forthcoming. We need to manage not only the opportunities that are undoubtedly there in renewables and other areas, but perhaps some of the negative consequences as well, if we are going to take people along with us. I do not think that we are having that kind of discussion yet.

Patrick Harvie: Thank you.

Mike MacKenzie (Highlands and Islands) (SNP): Taking a slightly different tack, I wonder whether, given the comments in his submission and his earlier welcome for the capital investment in infrastructure projects and so on, Mr Lonsdale is critical of the UK Government for making a drastic 30 per cent cut in the capital element of the Scottish Government's budget.

David Lonsdale: As we say in our submission, we are conscious of the financial and economic backdrop. The public sector is set to borrow £250 billion over the next three or four years and cuts, spending restrictions or whatever you want to call them are going to happen.

Mike MacKenzie: Yes—but capital expenditure is either good or not good. In your written submission, you say firmly that it is good. Do you therefore condemn the UK Government for making such a big cut to the Scottish Government's capital budget?

David Lonsdale: I was coming on to that. I was just trying to give the broader context.

Mike MacKenzie: I think that all of us in this room understand the broad context. Could you just answer the question, please?

David Lonsdale: I will answer the question as best I can and in the way I choose. I am conscious of your invitation to me to condemn the UK Government.

As we say in our submission, we have been very clear that, where the public sector can spend money, we would like it to do so on infrastructure.

We have called on the UK Government to spend more on infrastructure over and above what it has said so far that it will spend. It is also doing other things, many of which replicate what is happening north of the border; for example, it is looking at other ways of funding infrastructure. In Scotland, we have tax increment financing and the national housing trust model, and I think that the UK Government is looking at a kind of finance guarantee scheme. However, although we would like it to spend more money and a greater proportion of its spend on infrastructure, the sad reality is that, when politicians and Governments of the day have to make difficult decisions about money during downturns or at times when less money is available, capital and not revenue tends to be the first—or at least an early—port of call for applying the axe. After all, you can put off your capital expenditure programmes, your Aberdeen western peripheral routes and all the rest of it; politicians find it much less enticing to cut free bus passes or free this, that or the next thing.

Mike MacKenzie: In your evidence, you indicate a kind of antipathy towards increasing planning fees. The committee has already been through an inquiry in which the case was made for increasing fees in order to improve the planning system's efficiency and to allow developers to move quite quickly from pre-planning to consent and then to the stage of getting their shovels out. I guess that such a move would also, to a certain extent, reduce uncertainty in the planning system. As a result, I am surprised by the antipathy towards an increase in planning fees in your submission.

David Lonsdale: Truth be told, I do not think that we make that point. The only thing we say about the planning system in the submission is:

"The Scottish Government is currently considering proposals to increase planning application fees."

The fees went up by 10 per cent the year before last. The Scottish Government is consulting on the matter, and I would be happy to send you a copy of the submission we made to it earlier this year in which we make the point that our members would support an increase of sorts in planning application fees if they felt that there would be a commensurate improvement in the quality of service. That is where things begin to fall down.

Mike MacKenzie: I am sorry if I misunderstood your evidence.

When Mr Boyd talked about leakage from the Scottish economy, alarm bells started ringing with me. In an interconnected world in which we are trading with other countries, there is always going to be a certain amount of leakage. Equally, there is inward investment, and I think that over the past year or so Scotland has done very well in that

respect in comparison with other parts of the UK. I know that, when times are hard, countries tend to adopt a kind of protectionism, but I would be surprised if the STUC was advocating a protectionist rather than broader internationalist approach. Would you care to elaborate on what you meant by “leakage”?

11:00

Stephen Boyd: Absolutely. First of all, we have to be realistic: even if it wanted to, the Scottish Government could not be protectionist.

What I was trying to get at with my earlier comments was that the debate in Scotland about infrastructure spend and shovel-ready projects is not terribly sophisticated, and that there is a tendency to assume that the entirety of the spend on infrastructure will be of absolute benefit to the Scottish economy. There will be leakage in all that. I am not blaming the Scottish Government for that, but in the specific discussion that we were having about the relative benefits and possible disbenefits of shifting revenue to capital, I was arguing that we do not have the information to hand to make a proper adjudication on such matters because we do not know how much leakage there is.

Mike MacKenzie made a very important point about inward investment. Indeed, as we point out in our submission, the abolition of regional development agencies in England has been hugely beneficial to the Scottish economy and massively beneficial to Scottish Development International and Scottish Enterprise, which has seen a tier of competition ripped out of the international environment. They have been able to make the most of and benefit from that, which is why we have expressed concern in our submission about possible pressures on their budgets.

Mike MacKenzie: My final question is also for Mr Boyd. You express some concern about the national performance framework targets, in particular the target to achieve rates of growth that are similar to other small EU countries, which you think is not achievable—or will be achievable only because growth has been diminishing in those other countries. Is there something intrinsically wrong or is there some problem in Scotland that we cannot overcome and which would prevent us from realising growth similar to those other small European countries?

Stephen Boyd: It is not so much concern that we are expressing about that target. We have been making those points since the target framework was introduced. We were quite enthusiastic about the real ambition in the framework and were terribly appreciative of the introduction of what were described at the time as

“the golden rules” on sustainability, cohesion and solidarity.

Again, however, the debate has not always been as sophisticated as it could have been and comparing Scotland with certain other small economies over a certain period of time has not led to a proper appreciation of the strengths and weaknesses both of Scotland and of those other nations. The events of the past four to five years have highlighted, for example, the lack of sustainability in some of those nations. You could also argue that over the same timeframe—or, indeed, a longer timeframe—some of Scotland’s strengths have been highlighted. It is not that we thought that the target was terribly damaging in any way; it just did not lead to a duly sophisticated discussion on the nature of the Scottish economy and how it compares with those other nations. I do not find it terribly helpful. As we have said, the target could be achieved as a result of low growth in those nations rather than as a result of increased growth in Scotland. What does that tell us about performance? What lessons are there for policy? I think that it will be very difficult to identify any terribly effective ones.

John Downie: Part of the problem brings us back to Chic Brodie’s earlier question and Stephen Boyd’s point that it is difficult to make that kind of comparison about economic growth given how those countries are governed, their culture, their democracy and how different things such as local decision making are embedded. There are certainly lessons we can learn, but it will be quite difficult to make such comparisons and simply say that because we are a small country our growth will be the same as that of other small countries. We can get there, but it will take a real change and a rebalancing in our own economy.

Mike MacKenzie: We are not conflating two different things here. The target was expressed in terms of growth, which is generally measured through GDP. Surely the question whether we should be measuring growth or success in those terms is a different one.

John Downie: We should not measure in that way, because GDP does not mean wealth, social sustainability or environmental sustainability. It is, actually, a blunt way of measuring our country and communities. We have to have that debate.

Mike MacKenzie: I agree with you, but I would just—

The Convener: We need to move on.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning, gentlemen. Patrick Harvie mentioned the AWPR. I hope that people will welcome the fact that it will probably create 14,000 new jobs, which is a fantastic incentive in our economy.

Patrick Harvie: It might do, once we know how much it costs.

Chic Brodie: That is the advert.

Dennis Robertson: I will ask about skills. There is general agreement that finances are tight but, within the scope of the budget, does the skills budget afford enough opportunity to address some of the problems in the skills market? Secondly, does this all-male panel of witnesses think that the budget does enough to address the gender question?

Stephen Boyd: I will need to be careful about answering that. The last time I answered a question like that, it was on the front pages of all the papers the next day, so I will need to choose my words particularly carefully.

We need to develop the debate on skills. Despite the good work that the Scottish Government undertook about three or four years ago on what it called the skills utilisation agenda, the focus is still very much on improving the stock of skills. I am concerned about some of the language in the debate. The assumption still exists that if we improve the stock of skills, there will necessarily be a related boost in GDP growth. When demand is as low as it is in the economy right now, we cannot assume that that chain effect will happen. We must get back to discussing how we can better use the stock of skills that we already have.

We have had our concerns about the situation with further education colleges. Colin Borland also expressed concerns about that in the FSB submission. However, although we would always like more skills investment, in broad terms the balance is probably about right.

Dennis Robertson: What are your comments on the gender question?

Stephen Boyd: That is where I got myself into trouble the last time.

Dennis Robertson: Yes, I know.

The Convener: That is why he is asking you, Stephen.

Stephen Boyd: I will make the same points that I made to the Equal Opportunities Committee a few weeks ago. I will just make sure that I make them in a different way.

Too many of our industrial sectors are pretty much closed shops towards women, although an awful lot of activity is taking place on that. At the women's employment summit last month, the First Minister made a welcome announcement about trying to encourage female school-age children to consider careers in science, technology, engineering and maths. Currently, about 80 per cent of the women who train in those subjects do

not go on to pursue careers in them. That is a major concern, particularly when some sectors that tell us they have a skills shortage, such as the energy sector, are the sectors in which women are most underrepresented.

As we discussed at the Equal Opportunities Committee, we are not necessarily looking at major spend in that policy area; we just need to ensure that women can avail themselves of the opportunities that are available elsewhere. In modern apprenticeships, for example, the gender balance is beginning to be much more fairly distributed over some areas that, at the moment, are massively dominated by men, such as renewable energy and engineering.

Dennis Robertson: I assume that you welcome any spend in the budget on addressing those problems.

Stephen Boyd: Any spend would be helpful. However, again, we must recognise that it is not only a matter of spending. We must ensure that the spend that already exists is much more fairly distributed.

Colin Borland: I will deal with the gender issue first.

In tough economic times, when large corporations in particular begin to consider slimming down, what sorts of roles go in the first and second rounds of redundancies? Are they in marketing, hospitality and other areas that might have a larger proportion of women than men doing the jobs? It is possibly not surprising that there is a particular problem with female unemployment and women losing their jobs.

We could do more to encourage more women to consider self-employment. We do badly on that by any measure, but our membership in Scotland does slightly less badly than the UK average, possibly because self-employment is completely flexible and people can fit it in around other tasks and duties that still, unfortunately, tend to fall predominantly to women. The women into business programme does a lot of good things to promote self-employment, which is one way of offsetting some of the loss of jobs.

The second question was about whether enough money is going into the skills agenda. As I said in my opening remarks, we are less interested in the raw amounts of money that go into, for example, Skills Development Scotland and more interested in how it is spending the money. To be fair to SDS, it is doing a lot of work to improve the employer offer, but even it would accept that there is a way to go.

It is important that people who want to improve themselves and their job prospects have access to information but, if I want to upskill the workforce or

I spot someone who has talent and I think, "How can I move them on to the next level?", I need an easy resource that I can go to, and one that fits in with my business, because the sort of jobs that are created in many small businesses do not fit neatly into a particular employment category. A salesman might also look after the warehouse, be responsible for health and safety and answer the phone. It is more difficult for companies that employ people in such jobs to engage with the system.

I pick up on Stephen Boyd's point about FE colleges, which are crucial. We appreciate that funding is tight, but we would like them to do a little bit more to engage with the local business population so that they provide not just courses that happen to be popular among the local cohort but courses that give people a realistic chance of a rewarding career in the local economy at the end of them.

John Downie: I will address the gender issue first. It is an interesting one. If we look at the statistics, employment in the third sector is down by about 10 per cent this year. It is sitting at about 137,000. The large organisations have cut staff while medium-sized and small organisations have managed to retain staff. Interestingly, the number of vacancies in the sector has increased this year, but the jobs are for three or four days a week. That is partly due to budget pressures, but it is also about flexibility. Some bigger private sector organisations do not build enough flexibility into the system to retain people in the workforce, yet the cost of losing someone and having to recruit is incredible. We can do more on that, and any budget spend would be welcome.

There is a focus on skills and training, and people say that it is all about that. Someone can gain skills and go on training courses, but what is the value in that if there is no potential for them to get a job at the end of it? That is why initiatives such as community jobs Scotland are important, as they give people an opportunity to work in a business and get training at the same time.

Colin Borland said that Skills Development Scotland is getting there, but it has been getting there for the past five years, as far as I can see, and we are spending £180 million a year on it. I question whether that represents value for money. If we put £30 million of that into an enhanced community programme, we could create 16,000 jobs in the third sector.

We focus on modern apprenticeships, but they are quite hard to get. Many people in our most vulnerable and poorest communities need to go on a jobs journey to get to the stage at which they are ready to get a modern apprenticeship. Our strategy needs to be much more nuanced. We need to see the benefits of people taking jobs in

the third sector to gain experience. The results of the community jobs Scotland initiative, which I am happy to send to the committee, show that some people move on to self-employment, more than 40 per cent move into a job and more than 40 per cent move on to college or university. Those are positive outcomes, and we need to focus on them. There is definitely a case for looking at some of the skills and enterprise agencies' budgets, because I cannot see that we are getting a bang for our buck through them.

11:15

David Lonsdale: Having sat in congestion on North Anderson Drive for the best part of an hour a couple of weeks ago, I fully endorse Dennis Robertson's comments on the Aberdeen western peripheral route.

In our written submission, we highlight a number of the positives, such as the energy skills academy and the employer recruitment initiative. Gender is a much wider question, which our organisation thinks is important. Our chairman is a female and our previous chairman was a female. Before that, our record on having a female chairman was non-existent. As an organisation, we have sought to address that by encouraging more women throughout the UK to take up senior positions in business. That is a small microcosm of the wider agenda.

The Convener: I have a final question on a slightly different subject, which picks up on John Downie's last comment. Next week, we will take evidence from the enterprise agencies, which have seen substantial real-terms reductions in their budgets over the years and are facing another real-terms decrease in next year's budget. What is your view on the funding settlement for the enterprise agencies? Is it appropriate, is it too much or is it too little? Is it going to have a negative impact on their ability to do what they need to do to help to grow the economy? I would like to get your thoughts on that—briefly, given the time.

Colin Borland: Under the current set-up, Scottish Enterprise and, to a lesser extent, Highlands and Islands Enterprise have little direct influence on our members, so we do not have particular concerns, one way or the other, about the overall funding level.

John Downie: The question links back to our earlier discussion about the national performance framework, rethinking the economy and focusing on achieving more positive social and equality outcomes through what we do. Compared to the remit of Scottish Enterprise, the remit of HIE is much more socially and community based because it is about building growth in local

communities as well. The differences are stark, and that needs to be questioned. I would like Scottish Enterprise to do that as well, because I think that the balance needs to shift. I accept that the budget has been cut and that the organisation has changed significantly in the past few years, with the focus shifting—as Stephen Boyd said—to bringing inward investors in. It always looks great when we announce 300, 500 or 1,000 jobs, but the overall economic value needs to be assessed critically, as Stephen Boyd said about some other issues, to see whether that is where we should be investing.

Stephen Boyd: The pressure on the Scottish Enterprise budget is a concern for us. I hear what John Downie says about the enterprise agencies not being to blame for their budget. We are in danger of being critical of Scottish Enterprise for not doing the stuff that we would like it to do when the Scottish Government has not asked it to do those things.

On what Scottish Enterprise has been asked to do, I hear all the time from businesses in the industry sectors that I am directly involved with, such as energy, aerospace, defence, marine and textiles, about the importance of the assistance that they get. Scottish Enterprise has done a lot of work in the textile sector over the past few years. That sector is not discussed much at the moment, but if Scottish Enterprise had not supported firms in the sector, there would be even fewer jobs and less output in the sector than there are now. The concern that we highlight in our written submission is that the efficiency savings—particularly those being demanded through the strategic forum—are extremely pressing. I am not saying that this is happening, but we would be worried if those efficiency savings could not be derived from shared services and so on—that would also be a concern for us—and ended up impinging on important projects that the enterprise networks are responsible for such as the European Marine Energy Centre.

The Convener: I have a follow-up question. Scottish Enterprise, in particular, is very focused on high-growth industries, yet the great majority of people in Scotland are employed not in high-growth industries but in other sectors. Is that focus right, or should Scottish Enterprise be doing more to improve productivity in the non-high-growth sectors?

Stephen Boyd: If the fundamental purpose of the Scottish Government is to increase GDP growth overall—setting aside, for a moment, whether that is right or wrong—the remit of Scottish Enterprise focusing on high-growth, high-productivity companies is exactly right. I do not think that that is challengeable. The wider issue is whether we provide sufficient support to other

businesses, and I think that Scottish Enterprise does. We must recognise that it does not work only with high-growth businesses. The work that the Scottish manufacturing advisory service—Mr Brodie hosted an event here last night on manufacturing in the future—has done over the past few years with companies of all sizes and all ranges of productivity has been massively helpful to the Scottish economy. We need to recognise the full gamut of what Scottish Enterprise does and how neatly it fits in with the Scottish Government's strategy. Whether you believe that that is the right overall strategy and that the enterprise networks' role within it is correct is a debate that we should set aside.

David Lonsdale: Stephen Boyd's answer was excellent and I concur with most of what he said. If we are serious about rebalancing the economy by having more trade externally and more inward investment, Scottish Enterprise's role is central to that agenda. Inward investment is important. The committee undertook an inquiry into exporting and inward investment a couple of years ago, and one of its findings—if I recall rightly—was that companies that come to Scotland and invest here are more likely to export. There are a lot of benefits in terms of benchmarking, exports and employment. That is not to say that some of those companies do not up sticks quite quickly thereafter, but that is a risk we take.

The Convener: That concludes our evidence session. I thank our panel of witnesses for coming. It has been very helpful.

11:21

Meeting suspended.

11:27

On resuming—

The Convener: I welcome our second panel of witnesses. They are Norman Kerr, who is the director of Energy Action Scotland, and Dr Dan Barlow, who is the head of policy at WWF Scotland. Before we get into questions, would you like to say something on the budget by way of a brief introduction?

Norman Kerr (Energy Action Scotland): Thank you. We are delighted that the committee has returned to this topic. Following its evidence session earlier this year, its recommendation was for £200 million per annum to be spent on tackling fuel poverty. Although we now have that in the budget, we can have a discussion about how secure that £200 million is. For example, the actual figure that is available from the Government is £65 million and it hopes to raise £135 million from the energy companies. In Energy Action Scotland's view, that is not a given—that is not

secured money. We may touch on that in our discussion.

I hope that the committee will return to the topic, perhaps in six months' time, to consider not just the recommendations that it makes, but the impact of the programmes that follow those recommendations. It is not just about the money; it is about the impact of how that money is spent.

Dr Dan Barlow (WWF Scotland): I very much welcome the opportunity to speak to the committee about the Scottish budget. There are two things to which I would like to refer initially. First, I welcome the fact that the committee has identified the importance of scrutinising the budget in relation to the broader set of outcomes that the national performance framework represents. That is very important. For us, under that theme, the low-carbon economy is one of the key outcomes that we need to secure in Scotland.

We are particularly interested in seeing how the budget and the Climate Change (Scotland) Act 2009 implementation plan work together. We welcomed the committee identifying last year that this area was important and acknowledging that there are concerns around whether the budget fully funds the 2009 act's implementation plan. I hope that we can draw out some of the concerns that we think still exist, because the budget as it stands does not give us confidence that we will meet all the targets that were established in the 2009 act, which are clearly very important.

11:30

The issue of homes is one of the priority work areas for WWF Scotland. It is important in terms of emissions and it has a critical role to play in improving energy efficiency to cut emissions and address fuel poverty. We would be interested to explore the issues around the levels of funding that are available to support energy efficiency in homes, particularly with regard to some new analysis that WWF published just this morning. The analysis looks at the scale of the gap in the level of public and private funding that we think would be necessary to meet the fuel poverty and climate change targets that the Scottish Government is committed to.

The Convener: Thank you. We will start with questions on some of the fuel poverty issues.

Rhoda Grant: Do you believe that the budget does enough to tackle fuel poverty?

Norman Kerr: The simple answer is no. The committee identified £200 million as a minimum spend per year in that regard. As I said in my opening comments, only £65 million of that is coming from the Scottish Government. When we debated the issue previously, Energy Action

Scotland's view was that the Government should lead on the issue and commit at least £100 million to it. I do not believe that the budgets as they stand are secure enough to tackle fuel poverty.

It will be quite a challenge to get the £135 million that is to come from the energy company obligation every year for the next three or four years—that is a very big ask. We have not secured that level of funding up to now and I do not see how we will be able to secure it without significant support from the Scottish Government.

Dr Barlow: We fully agree. The analysis that we published today suggests that about £6.3 billion in total needs to be spent if we are to improve homes and ensure that fuel poverty is eradicated in Scotland by 2016. Of course, we are not suggesting that all of that has to come from public money; we recognise that a large proportion of it will need to come from private investment. However, we think that there is a critical role for the Government to ensure that it spends significant public money to support that goal; of course, that will help to leverage in private money as well.

On the current trajectory, we will see about £0.5 billion spent over the period, which is about a tenth of what the total investment will need to be if we are committed. The target is only a few years away, so it is important that we increase our efforts to improve the quality of our housing stock and ensure that we can meet the target.

Rhoda Grant: What measures would you want to see in the budget that would have a real impact on fuel poverty?

Dr Barlow: The Scottish Government has committed to the implementation of a kind of national retrofit programme, which we think is helpful and the right way to go. We think that it builds on the Scottish Government's experience of developing the universal home insulation scheme, which ensures that we can apply insulation in a coherent and cost-effective way. However, we can roll that out at the scale that we need only if more funding is available to enable more people to access it.

The Government needs to look clearly at how it can support individuals and local authorities to make the green deal work. Obviously, that is a UK mechanism, but the Government has committed money in the form of cashback to act as an incentive to people to take up the green deal. That is very welcome, but it will not be enough on its own. We will need to look at whether support can be given so that, for example, local authorities can work together to find a way that makes the green deal deliver and to bring in properties that can access the available funding. It may be important to have seed funding, for example to develop a

business plan that shows how the green deal and ECO funding could work together.

Norman Kerr: Dan Barlow is correct to say that it is about joining funding together. However, Energy Action Scotland's view is that the green deal will not address fuel poverty. It is not aimed at the fuel poor market and that is where we think the Scottish Government will have to take the lead.

The universal home insulation scheme is very welcome, but we are talking about a 10-year roll-out so by 2022 we hope that the national retrofit programme will have covered all homes in Scotland. The target date on fuel poverty is 2016, and the carbon emissions target is 2020. We are therefore already saying that we are constructing a programme that will come to an end after the target dates on the eradication of fuel poverty and on climate change.

Patrick Harvie: Last year, the budget scrutiny reports by this committee and the Finance Committee commented on the need for read-across between the report on policies and proposals under the Climate Change (Scotland) Act 2009 and the budget. I have in front of me a letter from John Swinney to the subject committee conveners. The letter is dated yesterday, although I gather that it arrived with the committee at 10.15 pm yesterday, so it is just about possible that the witnesses have not had a chance to look at it and absorb its contents.

The Economy, Energy and Tourism Committee recently raised with John Swinney the issue of the read-across between the budget and the RPP, and looked for reassurance that it would be better. I have made enough points of order on the same issue to lose the Presiding Officer's friendship for good.

Mr Swinney acknowledges in his letter that there is a need to

"take steps to improve the presentation of budget information relating to the delivery of climate change policies."

The letter goes on to say that

"the Scottish Government has prepared a summary that draws together details of the budget lines across the spending review period that support the delivery of measures to reduce greenhouse gas emissions."

The next paragraph says that rather than presenting the budgets strictly according to the ministerial portfolio, the summary is grouped according to the main sections that are set out in "Low Carbon Scotland: Meeting the Emissions Reduction Targets 2010-2022", which is RPP1.

The letter goes on to say:

"This is intended to help committee members more easily read across between RPP1 and the draft Budget."

Is Mr Swinney not utterly missing the point here? Because of our failure to meet the first annual emissions reduction target, Mr Swinney is legally required to come forward with a new set of proposals and policies to make up the lost ground in year 1, not just in future years. Is it not bizarre that we are being asked to look at a budget and decide whether it meets the climate change objectives before we know what the policies will be to help us to make up the lost ground in year 1?

Dr Barlow: It is clearly difficult to find a way in which the information is presented at the right time to enable appropriate scrutiny of the RPP2 and the budget. It will be important for the committee to scrutinise the RPP2 when it becomes available and to read across to the budget. If the committee identifies areas in which it thinks funding will not be sufficient, it should challenge the Government on that.

Patrick Harvie: But that will be after we have finished our scrutiny of the budget.

Dr Barlow: That makes it quite difficult to read across this year. Of course, it will enable the scrutiny process for the next few years to look at how RPP2 is funded by future budgets, but I agree that it will be quite difficult this year.

However, we already know that one of the reasons that we failed to meet the 2010 target is because emissions from transport and homes are greater now than they were 20 years ago. We know enough to look at some key sectors and see that we are not making enough progress in them. That suggests that it is clearly appropriate for the committee to look in detail at those sectors this year and take a view on whether it thinks the commitments that are made in the budget on homes and transport are likely to deliver future targets and compensate for the shortfall in the 2010 target. We need to recognise that those are two sectors in which emissions need to be put on a very different trajectory.

Patrick Harvie: I am glad that you mentioned those two sectors specifically. I appreciate that you have not had the chance to see the summary document, which is regrettable, but when I look through it, I see sections on renewable and community energy, grid enhancement, the fossil fuel levy, and so on. I see a section on the Scottish enterprise agencies, and one on policy and things like the contribution of the United Kingdom Committee on Climate Change.

I also see a section entitled "Low Carbon Economy", which mentions energy efficiency advice, but the funding for that section is only £10 million, so it is clear that it does not include the national retrofit programme. None of the sections in the document includes any of the other work to roll out the delivery of insulation programmes, for

example, or says a word about transport. Given that we are looking to see where change is necessary in the Scottish budget to achieve improvements in those two sectors, would you say that it is a disappointing document?

The Convener: Before the witnesses answer that question, it is only fair to clarify that I have just been advised by the clerks that the document before us is only a summary document and that the clerks have printed out the pages in the summary that are relevant to the committee's remit. Therefore, there will be other pages that deal with issues such as transport; it is just that we do not have them available to us this morning.

Patrick Harvie: Again, that makes it very difficult to have the conversation.

Given that there is nothing in the low-carbon economy section on housing and that the national retrofit programme has a relevance to energy, do you agree that there is a real problem in achieving the read-across that this committee and the Finance Committee said last year was necessary, particularly if we are to look at how we can close the gap and make up the ground that was lost in year 1 of the annual targets?

Dr Barlow: This year, given the timing of the development of RPP2 and when it will be available for scrutiny in the budget, there is a difficulty in ensuring that that read-across is there and that the committee has the information that it needs to be confident that the budget will deliver RPP2. I have not been able to look at the document to which you referred, but it would strike me as strange if it did not identify specific actions to be taken in housing and transport, and whether additional measures would be introduced to make up for the fact that emissions from those sectors are not reducing at the rate that they need to if we are to deliver the climate change targets. I urge the committee to look at that and to raise it with the cabinet secretary.

Norman Kerr: From the brief glance that I have had at the document, I think that the committee needs more information than it contains. As Patrick Harvie said, it is disappointing that there is nothing to demonstrate how we will regain the ground that we have lost. I go back to the estimates that we made some years ago. The spending from 2006 until now has not achieved the desired results, so we are falling further behind. It would have been useful to get some indication from the cabinet secretary of how the Government intends to make up that lost ground. From the brief glance that I have had at the document, I have seen no such indication, but I acknowledge the convener's comment that it is a summary document, and I am hopeful that the committee will be furnished with further documentation to explain matters.

Dennis Robertson: We all accept that we did not meet the targets. The Minister for Environment and Climate Change, Paul Wheelhouse, has given us a clear understanding of some of the mitigating reasons for our failure to meet the targets, notably the extremely severe winter that we had.

Only yesterday, Paul Wheelhouse gave a commitment to engage with the Minister for Housing and Welfare, Margaret Burgess, and the Minister for Transport and Veterans, Keith Brown, to look at the whole agenda, which shows that the issue is being dealt with across the various ministerial portfolios. There is an acknowledgement that we must do that, and a lot of positives are emerging.

Is there an acceptance that we can do our best to ensure that we meet the targets, but that if we do not, there could be mitigating circumstances, such as experiencing a severe winter, as we did? In some of our remote and rural areas, the insulation of the housing does not meet requirements. Perhaps that is one of the other reasons why targets sometimes cannot be met.

Norman Kerr: There are a number of points that I would like to make in response to Mr Robertson. It was interesting that, when he mentioned the ministers who were to meet, he did not include the Cabinet Secretary for Health and Wellbeing, Mr Neil.

11:45

Dennis Robertson: My point was that Mr Wheelhouse mentioned yesterday in the chamber that he intended to meet both the housing minister and the transport minister to take the subject forward. He may well be seeing the cabinet secretary, but yesterday he mentioned those specific ministers.

Marco Biagi (Edinburgh Central) (SNP): For the record, he mentioned the national health service in response to a question from me.

Norman Kerr: Thank you. There needs to be a read-across between departments regarding severe winters. I do not think that it will surprise committee members to hear that this winter is also forecast to be a severe winter. We have singularly ignored the severe winter advice for a number of years and have continued to focus our main endeavours on the low-hanging fruit in the central belt. We need to widen the portfolio and bring health into the discussion.

The Cabinet Secretary for Health, Wellbeing and Cities Strategy last year commented on excess winter deaths. When we have 2,500 excess winter deaths every year—even in a good year—surely the warning bells are there that we should investigate the cause of excess winter

deaths that relate to cold, damp homes. However, I am still not seeing a read-across between departments on that.

A headline in the budget refers to £10.3 million being used to accelerate energy efficiency projects across the public sector and, specifically, in the NHS, but there is nothing that says that the NHS should be engaged with patients to give them a better understanding of the importance of the provision of warm homes as opposed to cold, damp homes. We still have quite a bit to do on the read-across; it is about choices that we need to make.

Dr Barlow: We welcome the actions that the minister has taken to meet his colleagues to discuss the issues. As part of those discussions, I hope that he will also discuss with them their budget spend and opportunities for them to ensure that the way in which the budget is allocated within their sphere of responsibility will help us cut emissions.

My second point is that the use of adverse weather as the explanation for missing the target in some ways risks being a slight cop-out, because we must be able to plan for a range of weathers and ensure that we are confident, whatever weather Scotland has, that we will cut our emissions. Ultimately, if we have houses that can cope with cold weather, individuals benefit as they have lower fuel bills as a result. It is difficult to see any disbenefit from having very good housing quality. In addition, the explanation does not explain why transport emissions would rise as a result of a particularly cold winter.

Thirdly, the RPP document identifies that if we rely on the policies alone, up until 2022 there is only one annual target that we can guarantee that we will meet and that if we ensure that the proposals translate into policies and are therefore implemented, five of the annual targets will be met. The fact that the RPP document itself does not set out policies and proposals that guarantee that every annual target can be met indicates that there is a bit of a fingers-crossed approach to meeting each of the annual targets. If we are serious about tackling climate change, we must ensure that the implementation plan to deliver the Climate Change (Scotland) Act 2009 includes policies and proposals that show how the targets will be met each year.

Dennis Robertson: I am not sure that I entirely agree with your comment about there being a fingers-crossed approach to meeting the targets.

On transport, I think that you will find that in severe conditions cars, buses and so on are on the roads for much longer because there are greater delays and various other things, so the emission rate will be much higher.

On homes and insulation, even in very well-insulated homes there will be a release of energy every time that someone comes in or out. We had an extreme severe winter. I take your point that we must try to manage the situation because, as we know, Scotland can have very severe climate changes. We are working to address the issue. That is the whole point of trying to ensure that homes are better insulated for the future, but the issue cannot be addressed overnight.

The Convener: I think that we have a debate on winter resilience—

Dennis Robertson: We do. It will be held this afternoon.

The Convener: That is on the plus side. On the downside, snow is forecast for the weekend, so we are expecting more severe weather.

Dennis Robertson: Thank you, convener.

Chic Brodie: Good morning. Let me fly a kite. Scottish Water's resource budget was cut substantially this year and its capital budget went up, but the net impact on it was minus £24 million. We have talked about the £130 million or so—I see Mr Kerr nodding—that Scottish Water is to get from the private utility companies, although I am not terribly optimistic about that.

Given our discussion in our earlier session today about how European Governments look much more closely at European legislation, what would you say to the proposal that Scottish Water should create a subsidiary that could enter the utilities marketplace? Notwithstanding the state aid issues that have arisen previously and taking on board the point about the need to look closely at European legislation, what impact might such a move have? Scottish Water has the database of everybody and it knows where everyone is, and it also has Scottish Water Horizons. Would it be feasible, desirable or possible for Scottish Water to create a subsidiary that could enter the marketplace and compete with the—I will not call them a cartel—six main energy companies?

Norman Kerr: I think that the Office of the Gas and Electricity Markets would welcome any further entrant into the energy market, as it has done over the past few years when, for example, the Co-operative became an energy supplier. There are a number of smaller suppliers such as Everco or Ovo in the marketplace, although many of those by and large fall outwith the regulations that allow them to pay things like the warm home discount or take part in the carbon emissions reduction target. We need to understand that, when we create yet another entrant, we are looking at the impact and perhaps the unintended consequences of how it interacts with members of the public. Such a move would give further choice, which would be exceptionally useful.

However, let me take Co-operative Energy as an example. I do so not because Co-operative Energy supplies my house or because I am a member of the Co-operative movement, but it just happens that I have looked at its website—

The Convener: Co-operative supplies mine, I should say.

Norman Kerr: Co-operative Energy has one tariff—the regulator is currently trying to reduce the overall number of tariffs available to consumers—and the Co-op prides itself on that fact. When someone goes to Co-operative Energy, they know what they will get and it is easy to compare. The price is there on the website for all to see. Co-operative Energy is not the cheapest—it says quite categorically that it never set out to be the cheapest—but it provides an alternative to the big six.

However, the difficulty is that even the smaller companies need to buy in their energy from the wider global market. That means that the only savings that they can make are on service provision, such as billing, metering and the supply to the home. Those things make up a very small part of your bill. About 46 to 48 per cent of your bill is made up by the wholesale costs of gas and electricity. Ofgem says that it wants to trade more of that commodity on the day-ahead market. As things stand, the gas and electricity that you use in your house today could have been bought and sold five or six times before it comes to you. Quite honestly, I think that few people understand this part of the market, but it is the most significant part of everyone's bill. I do not think that it would matter how many new entrants we created if they were still working within a marketplace where they need to go and buy their energy in that way, and that makes up almost half of the bill.

Chic Brodie: Scottish Water is in the situation where it would have substantially more clout than some of those other companies. When we looked at fuel poverty last year, I went through the six major utilities' accounts over the past five years, so I know that you are right that the raw material—the wholesale gas—is a large part of the bill. However, there has also been an increase in indirect variable costs, particularly for marketing. I hardly need a front-door carpet now, as I can just leave all the leaflets that I get from the energy companies. Really, there would be a twofold benefit because, assuming that the state aid requirements were met, there would be an opportunity to increase revenue to the Scottish budget quite substantially because of the reach that a subsidiary of Scottish Water would have. I know that this is a theoretical question, but you are the experts and you know how the market works.

Norman Kerr: As I said, a new entrant to the market will always be welcome, but it will be

playing in a market in which all the other independents play as well. I suggest that not all the independents are cheaper than the six main suppliers. Simply being the newest entrant to the market might not make the company the cheapest option.

Also, Ofgem will tell you about the number of “sticky” customers, who are people who have never switched supplier. Particularly north of Dundee and Perth, brand loyalty to the incumbent supplier is prevalent because many people are employed by, or have a cousin or uncle or aunt who is employed by, the local supplier. The local supplier also has a presence on the high street so, for example, you can walk into the shop in Pitlochry and ask someone about your energy bill.

It would be good if there was an opportunity to create a new entrant to the market, but we need to be realistic about what it would be able to do for competition, given that we are in a market that is quite difficult for the ordinary person in the street to understand.

Chic Brodie: That comes back to the issue of whether we really have a competitive marketplace.

I have just one other question. As you know, I am a great supporter of the Energy Agency in Auchincruive in Ayr, which does a great job. From your experience across Scotland, how much engagement is there between such agencies and the local authorities? We have talked about the need for a culture change in the context of the procurement reform bill, and I just wonder whether the local authorities really engage. Do they understand what the objectives are? In your view, do they have the capacity to support this?

Norman Kerr: The Energy Agency has been in place for a number of years and it has a very good reputation, as do the other organisations that carry out similar work. Many local authorities choose to do that work themselves, so they have their own energy teams and they work effectively. Dundee City Council is one example, and Lochalsh—

Chic Brodie: Sorry to interrupt, but that is part of my question. In the context of local authority budgets, if you are saying that what the Energy Agency does is done by local authority energy teams, is there perhaps an overlap? Is there financial capacity within the budget to suggest that such matters should perhaps be outsourced?

Norman Kerr: There are five organisations, including the Energy Agency, and they cover the whole of Scotland. That is quite difficult when we hit very rural areas, as we need to look at how we can make the service real for the people there. If someone stays in Thurso, it is unlikely that they will get a home visit from an agency that is based in Drumnadrochit, so we need to look at how things can be delivered locally.

The example that I was going to give is Lochalsh and Skye Housing Association. As the major housing provider in the area, it has undertaken to provide an energy team, which will address the needs of not just its tenants but everyone in the local catchment area. That is a more appropriate service for them than, for example, a telephone advice service that is based in Inverness.

Through the local housing strategies, local authorities are being encouraged to understand what they can do to support not just their tenants—a large number of people were subject to stock transfer—but people within the local authority area. That might well mean that parts of an area engage with organisations such as the Energy Agency, Changeworks and SCARF—Save Cash and Reduce Fuel—and it might be important to do that in other parts, because that provides local delivery on the ground rather than telephone advice.

12:00

However, the telephone advice is provided free across Scotland. The 0800 number that the Scottish Government supports is a vital link because it means that people get consistent advice. Irrespective of where they are, when they phone the number, they speak to people who are trained to the same standard and who give the same advice. There is a quality mark, but the advice is generic so it might not go down to the level of what happens in someone's street. Sometimes, a local organisation can provide that additional service.

Chic Brodie: Is there duplication in some areas?

Norman Kerr: I would call what is provided not duplication but enhancement.

Dr Barlow: I will add to what Norrie Kerr suggested. There is merit in looking at whether support programmes should be targeted to rural, remote and island areas, to ensure that they can access what is available through the national retrofit programmes and can access funding through ECO, and to encourage take-up of the green deal. Such areas might not receive their fair share, and housing stock there might not be brought up to the standards in other parts of Scotland where more information is available and uptake might therefore be greater.

Mike MacKenzie: Is the limiting factor—the problem—not a lack of money but consumer resistance or apathy? We have already insulated 60 per cent of accessible loft spaces and 60 per cent of the cavity walls that are capable of cavity wall injection, so we have picked the low-hanging

fruit. The problem is not a lack of money but consumer resistance.

We cannot give insulation away. If we go into any DIY store or builders merchant, the literature and the free insulation are there—we are falling over it. The big six energy suppliers say that they cannot meet their obligations, not because they are not trying, but because they cannot find a way to encourage the remaining 40 per cent to take up the opportunities for them to increase the insulation of their homes.

Norman Kerr: You say that the big six cannot spend the money. In many respects, that is true, but that applies to certain groups, such as the super-priority group—people who are over 70 or over 80 and who receive certain benefits. Those people can be found, but it takes a lot of hard work and a lot of expenditure of shoe leather. That brings us back to what local agencies can do.

The Energy Agency, which Mr Brodie mentioned, has an exceptionally good presence on the ground because it receives additional funding from its local authority. In the past couple of years, its impact has been such that it has pushed more people through the programme than any other energy saving Scotland advice centre.

The issue is how to get there locally and the currency on the ground. As Mr Brodie suggested, when something drops through someone's letterbox, they often simply walk on top of it—it could be another energy bill that they do not want to read because it represents somebody else chasing them for money. The question is how to make the message local and how to create local champions.

I give as an example an organisation that is based in Lochwinnoch, which people might not necessarily associate with high fuel poverty levels. The Lochwinnoch energy action project employs local volunteers and one or two part-time staff, whose job in going round the locality is to be trusted intermediaries.

People are more likely to take up the offer of free insulation or insulation at a reduced price if it comes from someone in their area whom they trust and whom they believe buys into their area, as they do, rather than from a disembodied voice that comes down the phone line at 6 o'clock at night when people are trying to have their tea, from yet another organisation that claims to represent the Scottish Government and to promote Scottish Government grants.

The issue is all about how we tackle the people concerned. That has an impact, as it is not just about bill stuffers but involves a more costly way of doing things.

The universal home insulation scheme that Patrick Harvie and other colleagues brought forward a number of years ago involved people being on the ground in a local area and chapping doors. That has been more successful than any other programme to date in increasing the number of people who take up the measures. Energy Action Scotland, WWF and others are supporting the national retrofit programme because we believe that it will drive up the uptake in particular areas.

Mike MacKenzie: I am glad to hear you say that. However, the point that I am making is that, given that those people in Lochwinnoch had to be trained up on energy issues before they could give their advice, and in the context of our budget discussions this morning, to throw money at the problem might not be the best way to tackle it. The actual amount of money in any given year or in this year's budget might not be the limiting factor when we consider the problem in its entirety.

Norman Kerr: I would be delighted to agree with you if I felt that we were throwing money at the problem. However, if we bear it in mind that the costs of the measures that we need to take now are significantly higher than the costs of those that we have undertaken in previous years, it is clear that we are not throwing money at the problem.

I know of at least four community insulation companies that have gone out of business in the past four years because they have not had enough work to keep their people employed. There is a reduction in the number of jobs, which means that companies are having to lay off staff. We are not throwing money at the problem—far from it.

Mike MacKenzie: Is that not a consequence of the fact that the low-hanging fruit has been picked and 60 per cent of accessible loft insulations have already been done?

Norman Kerr: No. Under the old central heating programme, we were insulating 20,000 homes a year. I am talking about not gas or electric heating, but loft and cavity wall insulation. Now we are insulating some 3,000 to 4,000 homes a year. That might be partly because we have picked the low-hanging fruit, but many of the organisations that I have spoken about have been in rural areas for a number of years and they are not getting the work or the budget coming through. I am afraid that, at this point, I am not able to agree that we are throwing money at the problem.

Dr Barlow: We recognise that cash alone will not fix the problem, but the UHIS pilot showed how effectively that approach can work in increasing the level of uptake and the range of measures that can be installed. Doing things in that way is cost

effective, which is why we have been keen to ensure that such an approach is a key part of the national retrofit programme for the entirety of Scotland. Our experience of the area-based schemes to date shows that they are effective and efficient, and that they have high levels of take-up and deliver strong results. A national programme that delivers in a similar way will require significantly more funding than there has been to date for those pilot-scale approaches.

Secondly, we need things to accompany the cash that is brought forward in the form of greater incentives and disincentives. It is hoped that initiatives such as the green deal cashback scheme to which the Government has committed will drive up the uptake of the green deal programme. Some local authorities already offer council tax rebates, which will help to encourage people to install energy efficiency measures.

However, we also need disincentives. Another key area of work that WWF has been examining involves the implementation of minimum standards of energy efficiency for all properties, which would act as an incentive for people to install energy efficiency measures and a disincentive for people to live in inefficient properties. That approach requires cash, too, because we agree that it would not be fair to require all houses to be brought up to a specific level of energy efficiency without giving people access to cash to be able to do that.

We believe that combining the regulatory approach with making cash available to enable people to bring their properties up to that standard is the way forward.

Mike MacKenzie: What would you say to a neighbour of mine? She is a single mother who lives in her 200-year-old cottage, which is a listed building. She would be rendered homeless if she did not comply with the standard of insulation, and there are no other homes in the area. Are you prepared to accept that as a consequence of the Government imposing minimum standards?

Norman Kerr: I do not think that we are saying that a person could not live in their home unless it met a particular standard. We are saying that there are standards that need to be applied if people want to rent out a home. If your neighbour decided that they wanted to downsize to a smaller home and rent out their property, is it right that they could rent it out without any form of heating in it or any form of energy-saving measures at all? I do not think that it is.

We need to be pragmatic. What can we reasonably do with a 200-year-old cottage? There could be a state-of-the-art heating system in it that does not detract from the listed building status that it undoubtedly has. There are things that we can do.

We can consider what has been done in Edinburgh. Changeworks has done a lot of work on installing energy efficiency improvements in Georgian houses in the world heritage site that can be seen from the castle. It works closely with Historic Scotland to put in things such as secondary glazing that cannot be seen from the street, to dig up concrete floors and replace them with better flooring, and to put in solar panels that cannot be seen from the castle or the street. A number of measures are available. I do not think for one minute that anybody who is pressing for national standards is talking about making people homeless.

If I go to rent a car today, I expect it to be roadworthy, to have an MOT, brakes that will stop me and a seat belt that will protect me, and to get me safely to the end of my journey. I would have no such assurances in renting privately.

Mike MacKenzie: That is a very good point, and I am glad that you have clarified matters.

Finally, in an ideal world, we would hope that the UK Government and Scottish Government initiatives to deal with the problem dovetailed nicely, but something occurs to me every time I look with interest at the UK Government initiatives. You mentioned a state-of-the-art heating system. The domestic renewable heat incentive, which was designed to stimulate the kind of situation that you have described and which we have heard about for three or four years, has still not been introduced. There are the CERT and community energy saving programme schemes, which do not work in rural Scotland. They certainly do not work on Scotland's islands, where the fuel poverty level is highest—it is 50 per cent now on our islands.

Those are UK schemes. The green deal seems to be intrinsically and fundamentally flawed, unless energy prices quadruple over the next two or three years. Perhaps the UK Government knows something that we do not. The problem is that the green deal is fundamentally flawed and that it will not work, because when people dig up their concrete floors—

The Convener: Can we have a question, please, Mr MacKenzie?

Mike MacKenzie: Yes. Do you agree that, under the green deal, digging up a concrete floor simply will not pay for itself? Are the UK measures at all helpful in tackling fuel poverty? Is the Scottish Government left trying to do the job on its own?

Norman Kerr: If we assume that the UK-led schemes have no impact on reducing fuel poverty in Scotland, the whole budget that we are discussing is a sham, as it relies on £135 million from those schemes to make it work.

Mike MacKenzie: Will you clarify that? Where is that money expected to come from?

Norman Kerr: That money will ultimately come from UK consumers. It is not drawn from the energy companies' profits; it is drawn from environmental taxes that are on everybody's energy bills.

12:15

Mike MacKenzie: Could you just—

The Convener: Hold on, Mr MacKenzie. You have had an extensive crack at the whip on this line of questioning. We have other business to get through and I am conscious of the time, so perhaps you could just let the witnesses answer your question.

Dr Barlow: We argue that, in time, minimum standards would need to apply to all properties. There should absolutely be some exemptions, although as few as possible. The key thing is that financial support should be available to meet the standards. We agree that it is not possible to bring a number of properties up to a high standard through relatively cheap options such as loft and cavity insulation, because solid-wall insulation is required. That is exactly why dedicated Government funding needs to be available and why we need to ensure that things such as the ECO funding work for Scotland and are successful.

On Mr MacKenzie's question about the UK energy framework, it is clear that the framework presents challenges. There are issues about the extent to which the green deal will genuinely help those who are in fuel poverty. It will help to cut emissions from the housing sector, although it is definitely not a magic bullet, and it will have a limited role in tackling fuel poverty. However, the Scottish Government has shown leadership by committing to the national retrofit programme. It has set itself apart from the UK Government by setting up a dedicated programme in Scotland because that is the right thing to do.

The challenges are about whether we have the right level of support and whether we are taking enough steps to ensure that the mechanisms that are available at UK and Scotland levels work together to give the most cost-effective and CO₂-reducing options available. We must ensure that the ECO and green deal money and targeted Government funds deliver in the best way that gives us the best outcomes. It is clear that there is scope to influence that.

Marco Biagi: My question relates to Mike MacKenzie's points about spending. If the £135 million and £65 million worked together in a complementary fashion and targeted the right

sectors, would that be broadly the kind of financial investment that is needed to achieve the objectives that have been set?

Norman Kerr: I refer you to the point that was made about the ground that we have lost in the past six years. If £200 million had been spent every year for the past six years, we would broadly be on track, but we have not spent anything like that in the past six years. Therefore, the £200 million should actually now be £300 million if we are to gain ground and meet the targets.

Marco Biagi: Is it the case that, in that period, the UK-wide schemes did not result in substantial or proportionate investment in Scotland? I remember reading reports that Scotland received perhaps 4 or 5 per cent of the overall spending, because the schemes targeted the low-hanging fruit at UK level, which was predominantly outwith Scotland. Is that a correct understanding?

Norman Kerr: A number of years ago, we were at about 6 or 7 per cent, but the Scottish Government has certainly worked hard over the past two or three years to encourage suppliers to spend proportionately in Scotland, and the spend has increased. The challenge for us is to ensure that that spend continues, at least at the current level, but preferably at a higher level.

Dr Barlow: Our analysis shows that we need a total investment in the region of £4.6 billion if we are to meet the 2020 climate targets in our housing sector and £6.3 billion to meet the fuel poverty targets. That is from public and private sources. As a minimum, doubling the amount of funding that is available to the national retrofit programme would be a good start. An important role for the committee is to check regularly whether private funding is coming forward at the level that is required to give confidence that we can meet the targets, because our doing so is still predicated on receiving substantial private investment to complement the public investments that are being made.

Marco Biagi: What does that figure include, over and above the national retrofit programme? I presume that money needs to be invested to bring things up to the minimum standards that you were arguing for.

Dr Barlow: Are you asking about the total figure?

Marco Biagi: Yes.

Dr Barlow: You are correct that it includes bringing all properties up to the minimum standards. It also involves ensuring that there is sufficient money to support the advice provision. As we have touched on, it is critical that we ensure that people understand what is available to them, that we provide tailored support and that we

ensure that when measures are installed people know how to use them properly to get the most benefits. Greater investment will be required in a range of areas.

Norman Kerr: It is important for the committee to consider not just the budget, but the impact of the budget. Mr MacKenzie mentioned a couple of times that rural areas are not well served. It would be helpful for the committee to investigate where the money is being spent and what measures it has resulted in. One criticism of the early days of the UK CERT schemes was that everybody got a dozen low-energy light bulbs that no doubt lie in a drawer to this day.

We need to consider the impact of the measures. Are we addressing rural fuel poverty? Are we providing state-of-the-art heating systems? Are we providing solid-wall insulation? Are we addressing the particular needs in certain areas? Knowing the answers to those questions is just as important as knowing how much is in the budget. We need to know whether we are spending the money and whether we are spending it effectively.

The Convener: I thank Norman Kerr and Dan Barlow. It has been helpful to the committee to have you along to give evidence.

Reporter (European Union)

12:21

The Convener: Item 4 is the appointment of an EU reporter. As members will be aware, all subject committees are required to appoint a reporter to act as a champion on EU matters in the committee. Previously, the role was fulfilled by Stuart McMillan, who has moved on to pastures new, so we have a vacancy. Do we have any nominations for the position?

Dennis Robertson: I nominate Chic Brodie.

Mike MacKenzie: I second that.

The Convener: Mr Brodie, are you happy to accept the nomination?

Chic Brodie: Yes.

The Convener: As there are no other nominations, I am delighted to confirm Mr Brodie's appointment as EU reporter.

Chic Brodie: Merci beaucoup.

European Union Engagement 2011-12

12:21

The Convener: Item 5 is on a brief draft report on EU engagement in 2011-12, on which we are required to report to the European and External Relations Committee. As there are no comments or questions, do members approve the draft?

Members *indicated agreement.*

The Convener: As I am sure members are aware, this is the last meeting of the committee for our clerk Dougie Wands, who is moving on to pastures new, with a secondment to another place.

Chic Brodie: Shame.

The Convener: It is for two years, I think.

Douglas Wands (Clerk): It is for 18 months.

The Convener: It is to the House of Commons. I am sure that we all wish to extend our good wishes to Dougie on his new venture and thank him for all his efforts on our behalf over the past months.

Members: Hear, hear.

12:22

Meeting continued in private until 12:23.

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